

2008 Employer Update

Legislative Update

Provisions for choosing survivor Option B changed June 4, 2008

The South Carolina Retirement Systems periodically conducts a review of retirement statutes to ensure continued compliance with the Internal Revenue Code (IRC). Likewise, the Internal Revenue Service (IRS) periodically reviews the Retirement Systems' "plan documents" to ensure compliance with the IRC. The statutes governing the Retirement Systems are considered the plan documents for IRS/IRC purposes.

House Bill 4876 included provisions that modified retirement statutes to keep the Retirement Systems in continued compliance with the IRC. The IRC compliance provisions of House Bill 4876 took effect June 4, 2008.

Most of the provisions of House Bill 4876 were technical in nature; however, one provision affected a member's ability to choose the survivor Option B payment plan.

The Retirement Systems allows a retiring/retired member of the South Carolina Retirement System (SCRS) and the Police Officer Retirement System (PORS) to choose a maximum benefit payment plan without a survivor benefit or a reduced benefit payment plan that provides either a 100 percent survivor benefit or a 50 percent survivor benefit upon the member's death. While the IRC

allows a spouse and multiple beneficiaries, regardless of age, to receive a 100 percent survivor benefit, a sole beneficiary who is not the member's spouse must be within certain age difference limits as determined by an IRC formula that is based on the retiring member's age, the beneficiary's age, and the difference between the member's age in the year of retirement and age 70.

House Bill 4876 modified state statute to allow members to select a 100 percent survivor benefit payment plan only if the member's designated beneficiary is the member's spouse, if multiple beneficiaries were designated, or if a non-spousal beneficiary is within the 10 year age difference limits allowed by the IRC formula. The non-spousal limits do not apply if the non-spousal beneficiary is older than the member or in the case of disability retirement or death benefits.

If, based on the IRC formula, the adjusted age difference for a member and a non-spousal beneficiary exceeds the IRC limits, the 100 percent survivor option payment plan would not be available to the member. The member would be able to select the 50 percent survivor option payment plan with no IRC restrictions.

Eligible retirees get automatic annual cost-of-living adjustment

The South Carolina General Assembly passed House Bill 4876, which included the recommendations of the State Treasurer's COLA Task Force concerning public retiree cost-of-living adjustments (COLAs), May 13, 2008, and ratified the bill May 22, 2008. Governor Mark Sanford vetoed the legislation May 27, 2008, and on June 3, 2008, the General Assembly overrode the Governor's veto.

At its June 17, 2008, meeting, the State Budget and Control Board, as trustees for the Retirement Systems, approved an increase in the Retirement Systems' assumed rate of investment return from 7.25 percent to 8 percent. As a result of this action, the guaranteed COLA provisions of House Bill 4876 took effect June 17, 2008.

As a result of the legislation, each July 1, eligible retired members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) will receive an automatic COLA of up to 2 percent as long as the Consumer Price Index (CPI) as of the previous December 31 was at least 2 percent. If the CPI was less than 2 percent, the COLA will equal the actual increase in the CPI.

House Bill 4876 also authorized the Board, as trustees of the state's pension trust funds, to approve ad hoc COLAs in addition to the automatic COLA of up to 2 percent if certain guidelines are met.

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This legislative update was published by the South Carolina Retirement Systems, a division of the State Budget and Control Board.

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Legislative Update

Plan now for upcoming PORS employer contribution rate change for July 1, 2009

The provisions of House Bill 4876, which provided and pre-funded an annual automatic cost-of-living adjustment (COLA) for eligible retirees of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS), included authorization to increase the employer contribution for PORS by no more than .5 percent to maintain the system's funded status at 30 years or less for FY10.

While the increase for fiscal year 2010 has not yet been finalized, for budget planning purposes, please consider an increase in the PORS base retirement rate of approximately .5 percent.

As soon as the Retirement Systems has finalized the amount of the increase, we will notify you of the actual increase for July 1, 2009.

Procedures Update

Guidance for employees who choose to not join the Systems

Employees covered by the South Carolina Retirement System (SCRS) may choose to not join the applicable retirement system for several reasons (please see the *Covered Employer Procedures Manual* for details).

Please note that an employee's decision to not participate in the Retirement Systems is an irrevocable one. This means an employee may not join the Retirement Systems at a later date unless he or she terminates employment and is hired in a position for which membership is mandatory (for

example, moving from a temporary position to a full-time position).

There is one exception to this rule that applies to an employee who decides to participate in the State Optional Retirement Program (State ORP) rather than becoming an SCRS member. After an employee has been a State ORP participant for one year, he or she may irrevocably choose to join SCRS during any open enrollment period prior to the fifth anniversary of his or her State ORP participation.

Eligibility to apply for disability retirement

Members may apply for disability retirement if they become permanently disabled **before they leave covered employment** and they:

- are under age 65 (SCRS) or age 55 (PORS); and
- have five or more years of earned service credit toward retirement.¹

Please remind members that they should file an application for disability retirement as soon as they become disabled. Also make sure members know that they must apply prior to leaving covered employment or they will not be eligible to participate in the disability retirement program.

¹If the member's disability is job-related, the five-year earned service credit requirement is waived.